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The Conference Board

Report Number 981

Long Term Care: A New Employee Benefit?

Senior executives discuss:

- *current models of group long term care insurance*
- *key issues in deciding whether to sponsor a group plan*
- *customized insurance products for different employee populations*
- *outlook for employer-sponsored plans*

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Long Term Care: A New Employee Benefit?

by Victor S. Barocas

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From the President

Today's corporate leaders are rethinking their approaches to employee benefits as a result of many factors, including a longer-lived population, an increasingly diverse work force, escalating health care costs, and government involvement with human resource policies. With fewer dollars available for employer-paid programs, many companies are sponsoring employee-pay-all options to help employees plan for their own future.

Long term care is emerging as one of those new benefits. This report examines how and why companies are implementing employer-sponsored long term care, the options currently available in group long term care insurance products, and the factors that influence employer decisions.

The Conference Board appreciates the support of the insurance carriers and companies who provided detailed information about their programs and spoke candidly about the current status and future prospects for long term care as an employee benefit.

PRESTON TOWNLEY
President and CEO

Executive Summary

Employer-sponsored long term care is emerging as a new employee benefit for the 1990s. The past five years have seen a rapid growth in the long term care marketplace in general, and employer-sponsored plans in particular. The impetus for the growth is the interaction of several demographic and business forces, including:

- Changing demographics, such as an increasing number of older workers and longer-lived elderly who will likely require long term care assistance.
- Growing numbers of employed caregivers who are responsible for providing elderly relatives with financial and/or caregiving assistance.
- Recognition that most existing employer-sponsored benefit packages are inadequate to protect employees and their families against risks associated with long term care.
- Escalating human resource costs, especially health-related benefits, resulting in revised benefit packages.

The insurance industry, seeing the aging population as a potential new marketplace, has responded with group long term care products. Today, employer-sponsored long term care insurance is available to employees, their spouses, parents, and, generally, to retirees and their families. Long term care plans are portable, and eligible participants can receive assistance in community or nursing home facilities, with eligibility based upon a standardized assessment tool.

Group long term care products have undergone significant refinement during their brief history: inflation protection, case management, death benefits and nonforfeiture provisions are among the new plan offerings and options. Underwriting and pricing long term care is especially difficult because this product is a hybrid containing elements of health, disability and life insurance, as well as deferred compensation. Moreover, long term care does not have the history associated with more traditional employee benefits. It is expected that all aspects of long term care insurance, from plan design to services offered and plan administration, will be continually improved as experience with the product increases and corporate interest in long term care grows.

Method

This report is based upon in-depth individual and group interviews, a literature review, and analysis of printed plan descriptions provided by executives from 24 large corporations. The sample of participating companies was selected to represent three categories: (1) insurance carriers marketing a long term care product; (2) companies that currently sponsor a long term care plan for employees; and (3) companies that are considering plan sponsorship. Carriers and companies were selected to represent a variety of approaches to long term care insurance products and plan designs.

Executives from insurance companies were interviewed about their long term care product: how it developed and their perceptions of the long term care marketplace. Corporate executives were asked individually to evaluate their experiences with group long term care products, to discuss long term care in relation to other employee benefits, and to identify facilitators and barriers to plan sponsorship. Additionally, three group interviews were conducted with senior benefits executives to discuss the future of employer-sponsored long term care from both a corporate benefits and public policy perspective. A literature review, analyses of detailed plan descriptions, and interviews with industry experts supplemented the interview research.

Companies that provided interviews include: The Aetna Life and Casualty Company; Air Products and Chemicals, Inc.; American Express Travel Related Services Company, Inc.; AT&T Co.; Avon Products, Inc.; BankAmerica Corp.; BASF Corporation; CIBA-GEIGY Corp.; CBS Inc.; First Interstate BanCorp, Inc.; IBM Corp.; John Hancock Mutual Life Insurance Company; Merck & Co., Inc.; Metropolitan Life Insurance Company; Motorola, Inc.; The Procter & Gamble Company; Quantum Chemical Corporation; and The Travelers Corporation. Two participant companies requested anonymity.

Many employers have implemented plans or are seriously considering group-sponsored long term care as an addition to their benefit package. They view it as a natural complement to existing benefit packages and, through employee-pay-all plans, as a way to help employees assume greater responsibility for their own future financial and retirement planning. Long term care is also seen as one element of an integrated corporate work-family initiative.

While generally positive about long term care's promise, employers are concerned about premium costs, the impact of inflation upon long term care benefits, and the legislative environment. Further, current and potential plan sponsors recognize that this employee benefit is significantly different from other benefits. Introducing a plan requires strong commitment and preparation time, including understanding the benefit, selecting a vendor, tailoring a plan to the sponsor's demographics and benefit package, and educating employees. Lastly, sponsors indicate concern about the many unknowns of long term care, the greatest of which is ensuring that plan premiums remain affordable. To date, there is limited information on claims by plan participants.

In order for widely accessible employer-sponsored care to become a reality, employers, the insurance industry, and government all have a role to play. The goal is to create an environment that will foster employer sponsorship and facilitate enrollment by eligible employees and their families. Specific responsibilities for:

- *Employers*—educate employees about the need for long term care insurance; design plans that encourage enrollment; and communicate company plans as models to the general public and other employers.

- *Insurance Industry*—design affordable long term care products; demonstrate an ongoing commitment to long term care; and develop products tailored to the group market.

- *Government*—clarify ambiguities in current tax laws; assume a leadership role to educate the public on the realities of long term care; and enact legislation to facilitate the growth of corporate-sponsored plans.

How employer-sponsored long term care evolves in the next few years depends greatly upon successful interaction among these groups.

Glossary of Terms

Activities of Daily Living. Activities that people who live independently do every day of their lives—eating, bathing, using a toilet, dressing, moving from one place to another, and transferring from bed to chair.

Acute Care. Medical care required for a short period of time to cure a specific illness.

Adult Day Care Centers. Centers providing social, recreational, and rehabilitation services to people unable to care for themselves independently during the day but able to live at home at night.

Assisted Living Facilities. Facilities for those not requiring nursing care but requiring daily assistance with activities such as eating, bathing, dressing, mobility and continence.

Benefit Eligibility. Prerequisites for receiving benefits. Generally based on Activities of Daily Living.

Board and Care Homes. Facilities providing room, meals, help with Activities of Daily Living, and some degree of protective supervision.

Care Advisor. Geriatric professionals who help individuals develop a care plan, identify appropriate services/providers, and monitor care.

Chronic Care. Medical or custodial care required for a long period of time.

Custodial Care. Care primarily for personal needs, like walking, bathing, dressing or eating; can be provided by individuals without professional medical skills or training.

Death Benefit. Allows return of premium payments to a beneficiary or to the participant's estate.

Guarantee Issue. Guarantees plan participation without medical certification.

Guaranteed Renewable. Ensures coverage; cannot be canceled as long as premiums are paid.

Inflation Protection. Provision for periodic increase of coverage and maximum daily benefit to reflect increasing costs of care based upon CPI or other economic indicators; medical underwriting not generally required.

Informal Caregivers. Family members or friends who provide care without pay.

Intermediate Care. Doctor-ordered nursing and rehabilitative care performed by licensed professional.

Long Term Care. Assistance provided over a period of time for those who are unable to care for themselves independently; includes range of services from skilled nursing to custodial care.

Maximum Daily Benefit (MDB). Dollar amount allowable for paid benefits during each day of eligibility.

Maximum Lifetime Benefit (MLB). Maximum dollar amount for each option, equal to a multiple (generally three-to-five years) of the daily benefit amount. For example, if the daily benefit amount is $100, then the maximum benefit is $182,500 (1,825 x $100).

Medicare. Federal government insurance program to assist those over age 65 with medical and hospital expenses; covers only skilled care in a skilled nursing facility; does not cover long term care.

Medigap Policies or Medicare Supplement Insurance. Private insurance policies to supplement Medicare; covers co-payments and deductibles; usually does not cover LTC services like custodial care.

Medicaid. Welfare program administered by each state and supported by federal and state funds; provides health insurance to eligible, low income individuals.

Nonforfeiture of Benefits. Guaranteed access to benefits after participating in plan for a specified period of time.

Paid up Premium. Payment schedule whereby participant prepays for lifetime coverage.

Portability. Option to continue coverage if employee leaves the sponsoring company.

Pre-existing Condition. Medical advice or treatment received from a health care provider during a specified period prior to the participant's effective date of coverage.

Respite Care. Time off or "respite" for informal caregivers who regularly provide care for a chronically dependent person.

Return of Premium. See Death Benefit.

Significant Activities of Daily Living (SADLs). See Activities of Daily Living

Skilled Care. Doctor-ordered care provided by a Registered Nurse or rehabilitation therapist.

Skilled Nursing Facility. Room, board and 24-hour skilled nursing care.

The Growing Need for Long Term Care

"We designed pension, savings and health plans to help our employees plan for their retirement; however, we learned long term care could eliminate their savings and our best intentions."

—vice president of benefits, communications company

Who will pay for long term care? Corporate executives, benefits professionals, insurance companies, employees, retirees, elected representatives and the media are all grappling with this question. In contrast to acute care, long term care is not covered by most existing employer-sponsored benefits. Concern about the high cost of long term care threatens the productivity of active employees and the economic security of active and retired employees alike.

Long term care includes a broad spectrum of health and social services provided to individuals who cannot function independently due to chronic, irreversible or degenerative physical or mental disorders. Care requirements usually increase over time and, contingent upon the illness, vary greatly.

Consumers and Providers

Currently, over 7.5 million of America's 30 million adults over the age of 65 require some form of long term care assistance, and some 1.5 million elderly reside in institutional settings. As age increases, the likelihood of institutionalization also increases. It is projected that 40 percent or 12.5 million Americans age 65 plus will live in a nursing home at some time. Among those over age 75, the percentage increases to 60 percent, or three out of five. Nursing home stays are likely to be either quite short or quite long: About half of all individuals who enter a nursing home stay under six months; the others stay for more than three years.

Traditionally, long term care was equated with nursing home assistance or institutional care. Today, long term care services are also provided in a variety of home, community and health care settings. As with institutional care, the probability of needing assistance increases with age: over six million, or 20 percent, of the 65 plus population, and nearly half of the population over age 85, receive long term care assistance in community or home settings.

For those receiving assistance in community settings, care is provided by an array of skilled professionals (e.g., nurses), paraprofessionals (e.g., home health aides), and informal caregivers (e.g., adult children, spouses, other relatives). Informal caregivers, usually female family members, are not reimbursed for their assistance, and they often juggle professional responsibilities with personal obligations. It is believed some 25 percent of all informal caregivers find that caregiving responsibilities affect their work because of excessive telephone use, unscheduled leave, lateness or lower productivity.

Costs of Long Term Care

Aggregate costs for long term care are approximated at over $61.4 billion annually; however, these estimates do not include dollar values for services provided by informal caregivers. Perhaps more telling is the high cost of long term care for the individual consumer. Depending upon geographic location, institutional care for one person ranges from $25,000 to over $60,000 annually. Home-related services can cost up to 60 percent of the rates charged for institutional care.

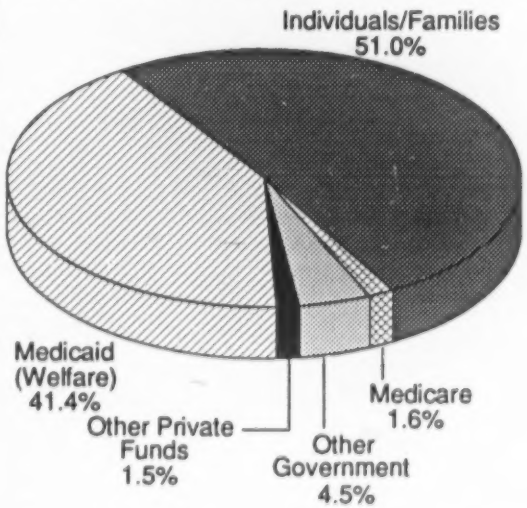
Most Americans, irrespective of age, are uninformed about the financing and potential costs for long term care; they often assume that nursing home and home care are covered by existing health insurance, Medicare, disability insurance or Medigap policies (see Table 1 on page 10). In fact, less than 7 percent of long term care costs are covered by Medicare or private health insurance; remaining fees are paid by private assets or public welfare programs like Medicaid (see Chart 1 on page 10). Further, Medicaid does not assume the cost of long term care until individuals have spent their personal or family assets and have become eligible for welfare payments.

Table 1: Who Covers Long Term Care?

Type of Care	*Medicare*	*Employee/Retiree Medical Plans, HMO, and Medigap Plans*
Nursing Home Care		
Skilled care, first 150 days	COVERS "acute" care only for limited number of days	COVERS "acute" care
Skilled care for 151 days or more	NOT COVERED	NOT COVERED
Intermediate care	NOT COVERED	NOT COVERED
Custodial care	NOT COVERED	NOT COVERED
Home Health Care		
Skilled nursing care	COVERS limited number of "acute" care visits	COVERS "acute" care, sometimes
Home health aide	COVERED only in conjunction with skilled care	NOT COVERED
Adult Day Care	NOT COVERED	NOT COVERED
Professional Care Advisor		
Professional advisor who assists in care planning	NOT COVERED	NOT COVERED

Chart 1

Who Pays for Long Term Care?



Source: Health Care Financing Administration, 1988.

Consumption of and costs for long term care services will expand during the coming decades as a result of changing population demographics and a rapid increase in the older adult population (see Chart 2). In part the result of aging baby boomers, the rapid growth of the most elderly population is augmented by greater longevity. Though the frail and oldest Americans will be seen as the primary consumers of long term care services, other groups at risk include the chronically ill and disabled, such as survivors of serious accidents, mentally retarded individuals, and those with AIDS/HIV infection.

What Role for Employers?

Employer interest in plan sponsorship for long term care has been stimulated by concerns about changing population and work force demographics as well as the economic implications of an older American population. While a benefit like long term care might serve to retain or attract skilled employees, especially in an era of projected work force shortages, other factors make employers cautious about sponsoring a new, untested benefit. Factors contributing to an "employer-go-slow" approach include greater government involvement with corporate human resource policies, in general, and mandated benefits, in particular; escalating health care costs; implications of retiree health care liabilities in light of Financial Standards Accounting Board (FASB) 106;[1] and the lack of national consensus about health care policy.

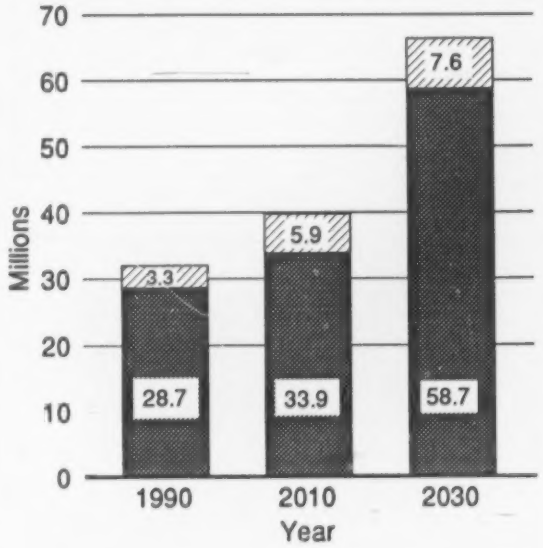
[1] Financial Accounting Standards Board statement number 106 (FASB 106) requires accrual accounting for retiree health care, life insurance, and other post-retirement benefits, other than pensions. The standards issued in December 1990 will require companies to record their obligations as a balance sheet liability.

The insurance industry is actively marketing group long term care insurance to potential corporate sponsors as a new product to assist employees and their families, but employers have many questions about long term care products. Long term care lacks the history and definitions associated with traditional health and welfare benefits with which employees are familiar. Long term care is an amalgam of health, life, disability and deferred income benefits. Additionally, employers have questions about the tax status of employer and employee premiums, vehicles to fund plans, and valuation of plan reserves. Lastly, volatility within the insurance industry itself has resulted in concerns about the viability of long term insurance, since plan participants may not require their long term care benefits until many years in the future.

It is in this environment that U.S. business leaders are examining corporate roles in helping employees protect themselves and their families against the risk of long term care liabilities. Specifically, corporations are asking themselves if there is a role for employer-sponsored long term care insurance and, if so, how it should be articulated.

This report reviews employer responses to the rapidly changing long term care marketplace, and discusses the issues, options and challenges to corporate-sponsored long term care. The following section profiles the types of group long term care insurance products that are currently available and provide the framework for corporate-sponsored plans. The report then describes how several pioneering companies have adapted those products to their own companies' environment. Finally, the future of long term care insurance, including barriers and facilitators to corporate sponsorship, is examined.

Chart 2
Growth of the Elderly Population



Source: Social Security Administration, 1988.

Group Long Term Care Insurance: A Rapidly Changing Product

"The insurance industry does have a role in long term care. Well-designed and affordable products provide an option to individuals who can afford to protect themselves. The government is then responsible to provide the safety net for those without the necessary resources."

--vice president, an insurance company

For the past 15 years, long term care insurance has been available to individual consumers through insurance agents or various associations. By the end of 1990, nearly two million long term care policies had been written. While the greatest number of policies have been sold to individuals, several industry experts suggest the employer-sponsored group market presents the greatest potential for future growth (see Chart 3). The rapid emergence and evolution of group plan products suggest that employers will have an increasing number of options to evaluate in the coming years.

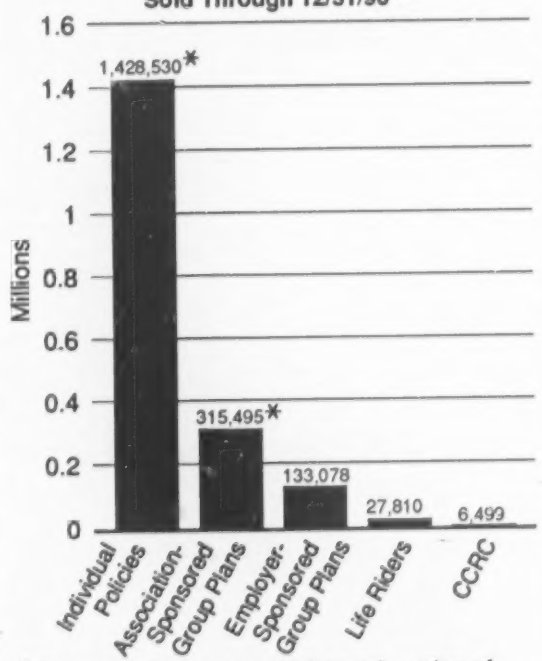
Emergence of the Employer Group Market

Today, approximately 135 insurance companies offer long term care insurance. Among those companies, only 10 market employer group products, and four or five dominate the employer-sponsored sector.

In the early to mid-1980s, the large group carriers conducted strategic planning studies to identify new markets and products. The aging population and greying work force were recognized as providing new opportunities for group employer insurance. Employer-sponsored long term care was seen as one of several products which could meet the needs of the marketplace. Initially, carriers entered the long term care marketplace not with group policies, but with policies sold through individual agents, Continuing Care Retirement Communities (CCRCs), or trade associations. Since the first corporate-sponsored long term care plan was written in 1987, however, there has been a rapid increase in the number of employers sponsoring plans. Currently, there are approximately 150 corporate-sponsored plans—two-thirds were implemented during 1990 and the first half of 1991 (see Chart 4). Plan sponsors reflect a broad cross section of industries and different sized companies, as shown in Chart 5.

Chart 3

Number of Long Term Care Policies Sold Through 12/31/90▲



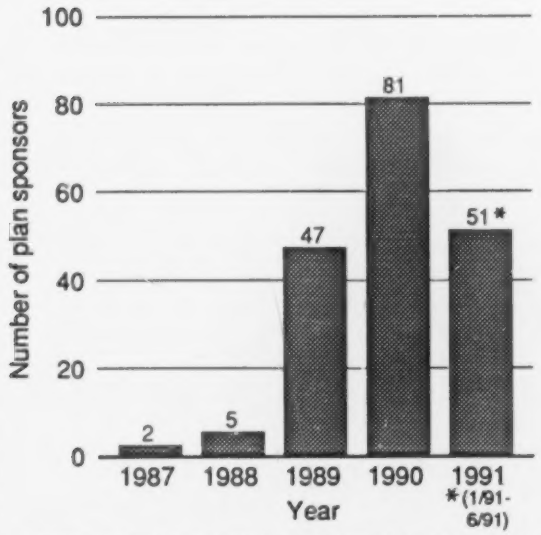
▲These numbers represent the total number of plans sold, not necessarily in effect.

*Estimates of lapses in the individual and group market has been estimated as being 25% to 30%.

Source: Health Insurance Association of America, 1991

Chart 4

Growth in Group-Sponsored Long Term Care

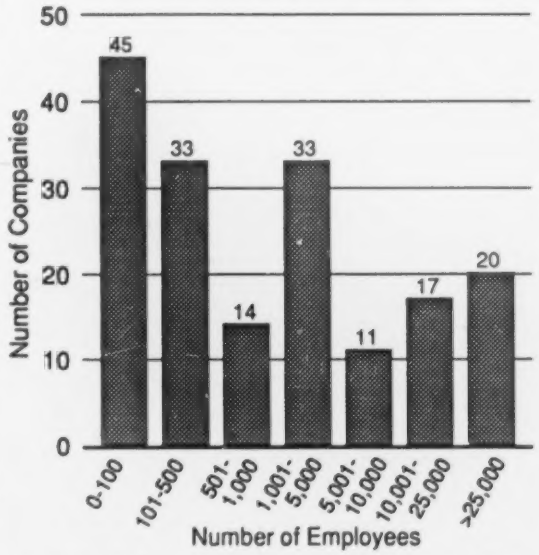


Source: Health Insurance Association of America, 1991.

Chart 5

Employers Who Sponsor Long Term Care Plans

By number of employees



Source: Health Insurance Association of America, 1991

In addition to an increasing number of plan sponsors, the past few years have brought significant refinements in plan design features and services covered by long term care insurance. For example, The Travelers refers to several "generations" of plans that have evolved since their first group offering in 1986. Specific enhancements vary by carrier, but most deal with options that expand coverage. Design features, such as waiting periods and exclusion of pre-existing conditions, as well as ancillary services, like nonforfeiture of benefits, are usually a function of the sponsor's plan specifications. Carriers foresee continued refinements in all aspects of their products—from design to services offered and administration—as their experiences in this market increase.

Standard Elements of Group Long Term Care Plans

In contrast to plan sponsors who generally view long term care insurance as a way to help employees protect assets, insurance carriers liken long term care products to health or disability insurance. Experience with health care and disability models strongly influences plan design, underwriting and pricing strategies for the emerging long term care products.

Services covered. Most group plans have expanded coverage beyond traditional institutional and home health care to include adult day care, respite care, and hospice care. Expanding services to include community-based assistance achieves several purposes. It allows individuals the opportunity to stay in their own home or community, a feature desired by most individuals at all ages. It also helps to contain costs since community-based assistance is significantly less costly than institutional care.

One insurer allows participants a "nursing home only option." Participants can elect a comprehensive plan, which includes nursing home and home health services, or a plan with lower premiums that will only cover the costs of nursing home care.

Eligible participants. Since long term care insurance is intended to help active employees plan for their own future, as well as anticipate the possibility of elder care obligations, most plans cover spouses, parents and in-laws as well as active employees. To create a greater participant pool, some carriers require employee enrollment as a prerequisite for spouse and parent eligibility. Further, an employee and spouse may be required to participate prior to enrolling the spouse's parents.

Retirees and their spouses are also likely to be eligible, unless the sponsor is in the process of reevaluating or redesigning post-retirement health benefits plans. "Even if they do not purchase the insurance," one manufacturing executive states, "offering retirees the option has at least two positive outcomes: It gives retirees the option to help protect their personal assets, and can also serve to improve retiree relations, demonstrating company concern about former employees."

Less likely to be covered are eligible employees' grandparents. Restrictions on grandparents are usually the result of medical underwriting requirements, high

premium costs, and age limits. Many plans limit enrollment to individuals under age 80. As one carrier explains, "Sending materials and marketing to grandparents is not cost effective. Too few are either eligible or can afford to participate."

Guarantee issue. Medical certification is generally not required for active employees. However, all other groups, including employee spouses, may be required to meet certain underwriting requirements. Depending upon the carrier, eligibility requirements may include completion of a medical questionnaire and/or certification by a physician or health care provider.

Portability and guaranteed renewability. Today, group-sponsored long term care plans are portable. Coverage for plan participants and other covered family members will not terminate merely because the employee leaves the company or retires. Further policies are guaranteed renewable as long as premiums are paid.

Maximum daily benefit levels. The maximum daily benefit is the greatest amount of money a plan participant may receive for each day the person receives benefits. Early plan sponsors were afforded limited options. However, while the lowest daily maximum benefit has remained fairly constant at $50 or $60 per day, carriers have increased the maximum benefit levels. Today, some plan sponsors allow participants the opportunity to purchase a maximum daily benefit of $150 to $200 per day. As a benefits executive at Merck & Co., Inc. points out, "Offering a range of benefit levels provides employees with a choice; this is especially important for plan sponsors who have employees nationwide. Plan participants can select benefit levels appropriate to the long term care costs associated with their local community."

Maximum lifetime benefits. Maximum lifetime benefits refers to a total dollar amount or length of time benefits will be paid by the insurance carrier. With the exception of one major carrier, each carrier in this study limits lifetime benefits to a dollar value equal to four to five years of receiving the maximum daily benefit. One carrier provides participants with the option of purchasing benefits for a period of three years, five years, or a longer period as specified by the plan sponsor.

Fixed premium costs. Like life insurance, a participant's premiums are fixed at the age of enrollment, with the following exceptions:

- *The rate for the entire group changes.* A periodic review of premiums as part of the contract with plan sponsors gives the carrier the option to increase or decrease premium rates for all plan participants. In some cases, the percent increase or decrease may be capped. One carrier says that major changes in premiums are not likely for five years. "We need this [length of] time to evaluate our experiences."
- *The plan participant elects additional coverage.* Several plans provide participants the option to increase their benefit levels on a periodic basis (e.g., every three years) without proving insurability, but all plans allow participants to increase benefit levels at any time with medical certification. Like life insurance, the new premium is generally the original premium plus the rate for the extra benefit based upon the participant's age when the increased coverage is purchased. (Inflation protection, a third reason for premium increases, is discussed later in this section.)

Inclusion of organic syndromes. Plans initially excluded organic syndromes, such as Alzheimer's disease. However, all major carriers now explicitly include organic brain diseases, like senile dementia and Alzheimer's disease.

Activities of Daily Living. Activities of Daily Living (ADLs) refers to the ability to complete certain everyday tasks like eating, bathing and dressing. Introduction of ADL criteria is probably the most significant recent change in the long term care marketplace. While the ADL test has become a standard tool to determine a plan participant's benefit eligibility, carriers differ in defining the number of ADLs and how many ADLs a participant must "fail" prior to being certified eligible for benefits (see Table 2 on pages 15-17).

While the ADL test is appropriate for many situations requiring long term care assistance, it may be inadequate when evaluating for some organic disorders. Consequently, all of the carriers have modified the test. An individual's ability to complete these tasks independently or only with direction by another individual is used when syndromes like senile dementia or Alzheimer's disease are suspected. One carrier also uses a standardized assessment tool along with ADLs when organic illness is suspected.

Reimbursement procedures. How carriers reimburse eligible plan participants is a key distinguishing feature of group plans. Carriers have tended to adopt one of two approaches: Most carriers reimburse an eligible participant up to the maximum daily benefit only upon submission of receipts from a nursing home or from a "qualified" service provider, like a registered home health aide. In contrast, one carrier reimburses eligible plan participants at the maximum benefit level, irrespective of who provides the long term care assistance. In this case, services can be provided by a certified provider or an informal caregiver, such as a neighbor or family member, without submission of receipts.

New Plan Features

New options are constantly being added to the long term care insurance product. The most common

Table 2: Examples of Group Long Term Care Products

	John Hancock	*Metropolitan Life*	*The Aetna*	*The Travelers*
Covered Services	Nursing care (skilled, intermediate, custodial) Home health care Adult day care Respite care	Nursing care (skilled, intermediate, custodial) Home health care Adult day care Care planning visit Respite care	Nursing care (skilled, intermediate, custodial) Home health care Adult day care Respite care Informal care	Nursing care (skilled, intermediate, custodial) Home health care Adult day care Homemaker services Respite care
Eligibles	Active employees Spouses, over age 18 Retirees and retiree spouses Parents and parents-in-law of eligible employees or retirees, under age 80	Active employees and spouses Retirees and spouses Parents and parents-in-law	Active employees and spouses Retirees and spouses Surviving spouses of retirees (maximum of 2 per insured employee or spouse) Parents and parents-in-law	Active employees and spouses Retirees and spouses Parents and parents-in-law
Premiums	Based on age. Guaranteed issue to actives; all other eligible groups subject to underwriting	Based on age.	Based on age. Guaranteed issue to actives and spouses; all others subject to underwriting	Based on age. Initial enrollees and new hires eligible to enroll without evidence of insurability. Others, including part-timers, typically required to provide evidence of insurability by completing a medical questionnaire
Benefit Eligibility & Certification Criteria	Totally dependent for at least 2 of 5 Activities of Daily Living (ADLs): – Bathing and/or dressing – Eating – Transferring from bed to chair – Toileting – Maintaining continence Dependence may be due to physical or cognitive impairment	Totally dependent upon others for at least 3 of 7 ADLs: – Eating – Dressing – Transferring from bed to chair – Toileting – Bathing – Mobility – Continence	Totally dependent upon others for at least 2 of 5 ADLs: – Mobility (walking or wheeling) – Transferring – Dressing – Eating – Toileting	Dependent on others to perform 2 of 6 ADLs: – Dressing – Bathing – Eating – Transferring from bed to chair – Getting around (foot or wheelchair) – Toileting Or, the insured answers 3 or more questions incorrectly on the Mental Status Quotient Test

Table 2: Examples of Group Long Term Care Products (continued)

	John Hancock	*Metropolitan Life*	*The Aetna*	*The Travelers*
Case Management	Case managers are registered nurses (RNs) who certify benefit eligibility. Mandatory case management includes: – Certification of ADL dependence – Review of medical records and consultation with physician – Periodic reassessment and decertification Other non-required services: recommendation of site and level of care; identification of aging and community resources; and information counseling	Care planning advisor is long term care professional not employed by carrier. Voluntary, comprehensive, in-home case management services covered: 1) Care Planning Visit — one time visit offered to all insureds 2) Care Advisory Services — available on an ongoing basis to insureds with comprehensive option	Mandatory case management. Case managers are RNs and master's level social workers with expertise in the in the field of long term care. Responsibilities include: – Information and consultation service – Referral service – Assessment and care planning service – Service coordination – Benefit eligibility certification – Periodic reassessment	Voluntary or mandatory case management available—based on plan design. Case management services: – Eligibility determination – In-home assessment – Personalized care plan – Ongoing monitoring May be a reduction in benefits when mandatory case management services not followed.
Benefits & Coverage Amounts	Actual daily charges for nursing home confinement, home health care services, adult day care, or homemaker services up to the Daily Maximum Benefit (DMB) for the selected benefit level. DMBs range from $60 to $140 per day. Participants select one option at the time of enrollment. The maximum lifetime benefit (MLB) equals 1,825 times nursing home DMB. Following are high and low options for a 5-year MLB: *Nursing home DMB* / *Home health care DMB* / *MLB* $ 60 / $30 / $109,500 $140 / $70 / $255,500	Up to 100% of DMB for nursing home and home care services. Home care coverage equals one-half the coverage of nursing home. Two plan options available: comprehensive (i.e., nursing home, adult day care, etc.) and nursing home only. Maximum lifetime benefit options for 3 yrs. (1,095 x DMB),5 yrs. (1,825 x DMB) or longer. Following are high and low options for a 5-year comprehensive MLB: *DMB* / *MLB* $ 50 for nursing home care / $ 91,250 $ 25 for home care services / $ 45,625 $200 for nursing home care / $365,000 $100 for home care services / $182,500 MLB for nursing home options are identical	100% of DMB for all levels of nursing home care and 50% of DMB for all levels of care service provided by a formal or informal caregiver in eligible home care unit/adult day care facility. DMBs range from $40 to $120 per day. Maximum lifetime benefit options for 3 (1,095 x DMB), 4 (1,460 x DMB), or 5 (1,825 x DMB) years. Following are high and low options for a 5-year MLB: *Nursing home DMB* / *Home health care DMB* / *MLB* $ 40 / $20 / $ 73,000 $120 / $60 / $219,000	Carrier pays benefits for covered services according to following schedule. Amount payable determined by DMB. *Nursing home care* — 100% of reasonable charges up to DMB. *Community-based care* — 100% of reasonable charges up to 50% of DMB. *Respite care* — 100% of reasonable charges up to 20 x DMB per year. MLB equals 1,500 x DMB to 5,000 x DMB. Following are high and low options for a 5-year MLB: *Nursing home DMB* / *Home health care DMB* / *MLB* $ 60 / $30 / $109,500 $100 / $50 / $182,500

Table 2: Examples of Group Long Term Care Products (continued)

	John Hancock	*Metropolitan Life*	*The Aetna*	*The Travelers*
Waiting Period	60 to 90 days after certification. Formal services need not be purchased to satisfy the qualification period.	60 days after admission to nursing home or 30 days after receipt of home care services. All nursing home days count toward nursing home waiting period.	90 days after loss of functional capacity as determined by case management system.	60, 90, or 120 consecutive days of qualifying event. Formal services need not be purchased to satisfy the qualification period.
Premium Waiver	Premiums waived when insured certified as ADL dependent and waiting period satisfied.	Premiums waived after 60 days of service.	Premiums waived when benefit payments commence.	Premiums waived after 60, 90, or 120 consecutive days of confinement , or having a qualifying disability for 60, 90, or 120 days
Premium Collection	**Employees and spouses:** through payroll deduction or direct billing. **Retirees and spouses:** through pension deduction or direct billing. **Parents, parents-in-law, and terminated employees:** through direct billing. (For direct billing, insured elects annual, semi-annual, quarterly or monthly billing.)	**Employees and spouses:** through payroll deduction. **Parents and parents-in-law:** through direct billing. **Retirees:** pension deduction or direct billing.	**Employees and spouses:** through payroll deduction. **Parents and parents-in-law:** through direct billing. **Retirees:** pension deduction or direct billing.	**Employees and spouses:** through payroll deduction. **Parents and parents-in-law:** through direct billing. **Retirees:** pension deduction or direct billing.
Other Features	Inflation protection — Every 3 calendar yrs. from plan's effective date, nursing home care costs will be reviewed using Consumer Price Index or other suitable indicators. Reduced paid up available at additional cost. Paid up coverage equals minimum of 30% of elected DMB beginning after 10 yrs. of premium payment. Return of premium available at additional cost. Death benefit equals total premium paid out to insured to age 65.	Optional inflation protection — Every 3 years, based on changes in LTC costs. Evidence of good health not required. Nonforfeiture options: reduced paid up, cash value, death benefits, extended term.	Plan written with guaranteed benefit upgrade, indexed to inflation. Nonforfeiture value — the actuarial fund balance used to cover the future term insurance cost for the insured's LTC insurance or provide for a reduced paid up benefit for life. Plan may be written with an optional Return of Contribution feature, limited to active employees and their spouses.	Time Earned Insurance (nonforfeiture) is offered in conjunction with a lifetime premium payment provision. Death benefit allows return of premium, less benefits received, to beneficiaries/ estate for all insured up to age 65. Paid up option: after 20 yrs. of premium payments. Both fixed plan and inflation provision options available.

additions are in the area of information and referral services, managed care, inflation protection, and nonforfeiture of benefits.

Information and referral services assist plan participants in finding high quality care. They also help control costs by shortening the search for care and helping participants price different services. In addition, information and referral services assist claimants and their family members identify available services for the eligible beneficiary. These resources may include plan covered services, like nursing homes or qualified adult day care facilities, as well as non-reimbursed services to provide additional assistance, such as family support services, adult companion programs, and information hot lines.

Managed care requirements vary among the carriers (see Table 2). For some, case management is suggested but not a prerequisite to receiving benefits. However, for others it is mandatory to receive specific benefits, or the maximum benefit payable under the plan. One carrier requires a case manager's approval for respite care assistance. Another can reduce the allowable maximum daily benefit by half if a case manager's recommendations are not followed.

Case management includes an assessment by an independent practitioner or insurance carrier representative with expertise in geriatric medicine or long term care. The assessment may involve an evaluation of the person's current living arrangements, physical and mental health status, ability to complete Activities of Daily Living, and availability of formal and informal support systems, such as health care, family and neighbors, and friends. Other financial resources may also be evaluated.

Like other aspects of health care, the cost of long term care is expected to increase greatly during the coming years. Inflation protection options are intended to help participants anticipate future long term care costs, which are likely to be significantly greater than the originally purchased benefit. This can be especially important for younger employees who will probably not require long term care assistance for two to three decades.

Depending upon the carrier and plan design, inflation protection does not generally require medical certification and usually takes two forms:

- *Fixed dollar increase.* With a guaranteed upgrade option, participating individuals are offered the option of increasing their maximum daily benefit by some fixed dollar amount. For example, every three to five years plan participants can increase their maximum daily benefit by $10 or $20.
- *Indexed option.* When electing additional coverage through an indexed inflation protection option, both the individual's premium and maximum daily benefit increase annually. The increase, generally capped at 5 percent, is a fixed percentage tied to the Department of Labor's Consumer Price Index or similar inflation barometer.

Nonforfeiture options, also called paid up option and time earned benefits, are an alternative to premiums that continue for the participant's lifetime. With time earned benefits, plan participants maintain coverage even if they elect to stop paying premiums.

There are three approaches to nonforfeiture options:

- In some plans, participants who stop paying premiums after 10 years have a guaranteed benefit equal to 30 percent of their maximum daily benefit. The guaranteed benefit increases for each year the participant pays premiums beyond 10 years.
- Another approach is based upon an "extended term insurance" model. Plan participants who cease paying premiums have an actuarially determined fund balance that is used to pay premiums for a period of time determined by the carrier.
- A third approach is a prepayment model. After 20 years, for example, insured individuals who elect this option have a paid up policy. Like a mortgage, no further premium payments are required.

Return of contribution. A return of contribution feature, also called a death benefit, is often seen as a tool to attract participation by younger employees. It is generally restricted to active employees and their spouses.

With a return of contribution feature, the estate or named beneficiary receives the cash value of the participant's premiums upon death. The main commonality among the different carriers is the gradual reduction of the cash value of the premiums usually beginning at age 65. Significant differences exist among the carriers; for example, one carrier's death benefit equals the total premiums paid minus any benefits received. Another carrier eliminates death benefits if the participant was deemed eligible for a benefit waiver.

The decision to offer a return of contribution option depends upon the perception of long term care insurance. One insurance executive explains, "If long term care is perceived like homeowners or auto insurance, a return of premium option should not be offered; however, if it is perceived as a way to help develop an estate, then a death benefit option seems more appropriate."

The rapid emergence of the long term care market offers both distinct and subtle differences for employers to evaluate. Because the employer group market will continue to evolve, companies evaluating their existing plans or considering plan sponsorship need to compare carefully the distinguishing features and options among different long term care insurance products.

Long Term Care in Employee Benefit Plans

"The government isn't doing real well with health care, in general, let alone long term care. We thought something needed to be done."
—benefits manager, a manufacturing company

Employers and insurance carriers agree: Interest in and sponsorship of corporate-sponsored group long term care insurance will continue to grow steadily over the next several years. Despite uncertainties and caution, many companies say they are investigating the feasibility of offering a long term care insurance option to employees. A recent survey projects an increase in plan sponsorship from 8 percent in 1990 to 68 percent by the year 2000.[2]

The most cautious companies believe growth of the employer market will occur slowly. Their interest in initiating a long term care plan is tempered by more immediate concerns such as managing existing health care benefit costs for active employees, implications of FASB 106 for existing retiree health plans, and the fear of creating employee expectations of a new entitlement program. An executive at a major pharmaceutical company expressed longer term concerns about the possibility of government-mandated long term care benefits or legislation that might penalize progressive employers—like the repealed Medicare Catastrophic bill that would have required employers to return part of a premium to retirees. Another *Fortune*-100 company expressed concern about whether a plan with benefits meaningful to today's beneficiaries would retain value for beneficiaries who may not require the benefit for many years.

Reasons for Sponsoring a Plan

Despite the uncertainties, benefits managers cite many and varied reasons for considering plan sponsorship. Long term care is a natural complement to existing benefit packages; it helps employers maintain their role as industry leaders in employee benefits; it can assist employees in protecting their retirement savings; and it is one piece of an integrated corporate work-family initiative.

A complement to existing benefits. In this study long term care was described by both carriers and companies as a benefit that protects against health-related risks not covered by existing acute care health benefits and disability insurance. In several instances, this lack of coverage was identified during employee focus groups and management meetings where existing benefits were reviewed and strategies to help manage health care costs were discussed.

Several carriers and corporations, each of whom have employee-pay-all plans, regard long term care as a high-visibility, low-cost employee benefit. "It is a no-cost benefit with many positive outcomes, like enhancing employee morale and giving employees more choices," according to one senior manager at American Express.

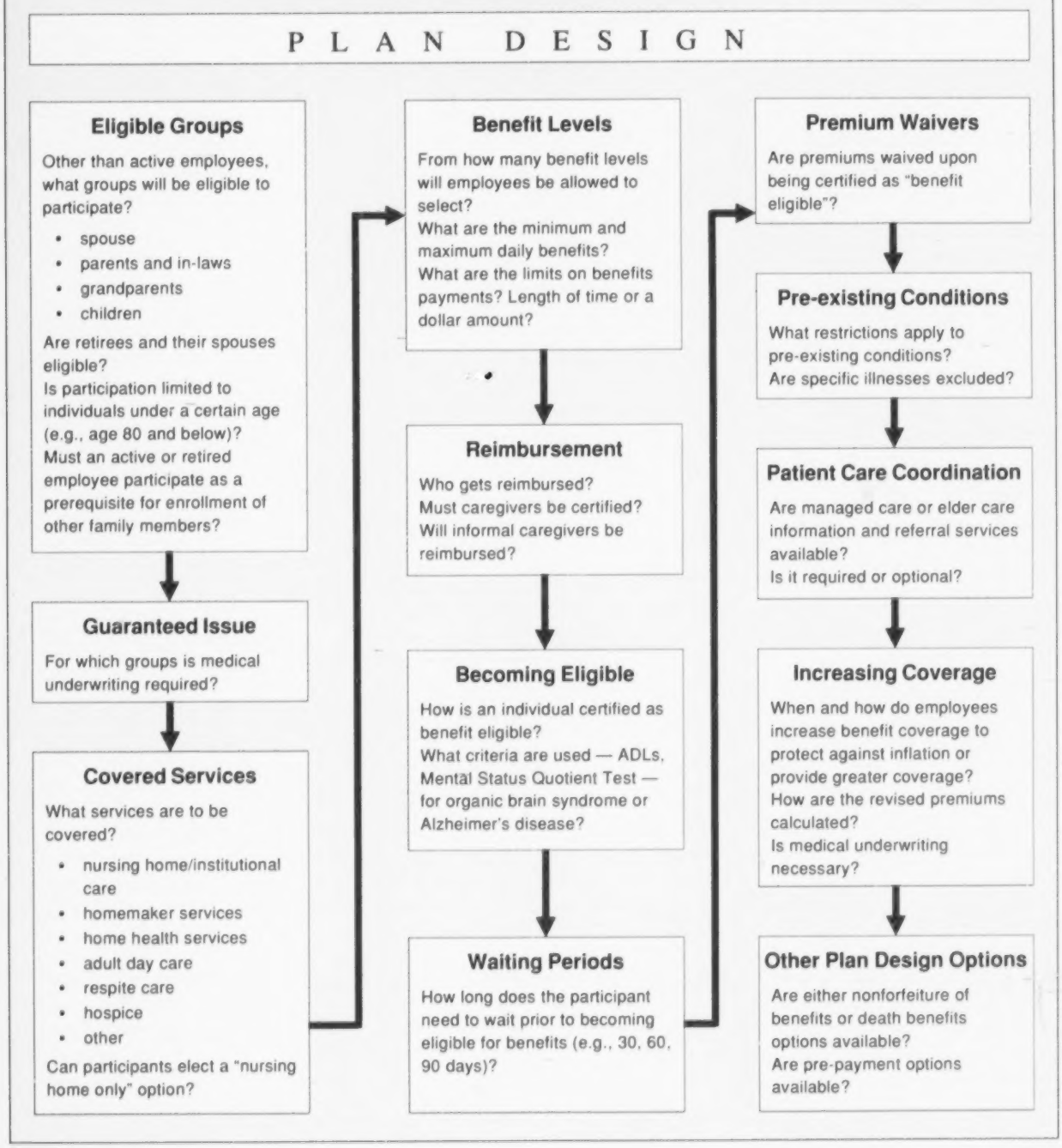
Plan sponsorship also helps to protect management's investment in employee benefits. Executives point out that employers spend considerable time and money to design, implement and maintain employee benefit programs that can be jeopardized if an employee is hit with heavy long term care responsibilities. One senior manager explains, "When employees lose their pensions and personal savings due to long term care, we lose our investment in helping them prepare for their future."

Leadership in employee benefits. Both American Express and First Interstate BanCorp indicate that their companies' desire to be viewed as "cutting-edge" employers contributed to their decision to sponsor a long term care benefit. "We want individuals to want to come to American Express," states one benefits manager. "We work hard to maintain our visibility as an industry leader. Our benefits planning department is charged with the responsibility of looking at and evaluating the newest products and services."

Protect retirement assets. Offering employees a long term care insurance option is seen as a way to help employees assume responsibility for their personal

[2] International Foundation of Employee Benefits, "Nontraditional Benefits for the Workforce of 2000," August 1990.

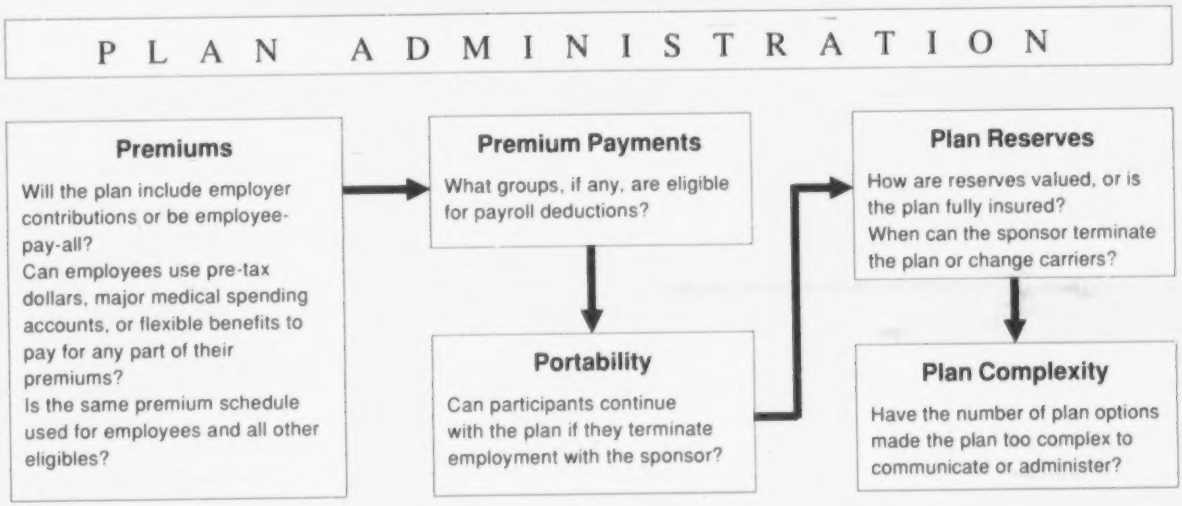
Table 3: Designing and Administering a Long Term Care Benefit Plan
A Framework for Decision-Making


PLAN DESIGN
Eligible Groups
Other than active employees, what groups will be eligible to participate?
• spouse
• parents and in-laws
• grandparents
• children
Are retirees and their spouses eligible?
Is participation limited to individuals under a certain age (e.g., age 80 and below)?
Must an active or retired employee participate as a prerequisite for enrollment of other family members?
Guaranteed Issue
For which groups is medical underwriting required?
Covered Services
What services are to be covered?
• nursing home/institutional care
• homemaker services
• home health services
• adult day care
• respite care
• hospice
• other
Can participants elect a "nursing home only" option?
Benefit Levels
From how many benefit levels will employees be allowed to select?
What are the minimum and maximum daily benefits?
What are the limits on benefits payments? Length of time or a dollar amount?
Reimbursement
Who gets reimbursed?
Must caregivers be certified?
Will informal caregivers be reimbursed?
Becoming Eligible
How is an individual certified as benefit eligible?
What criteria are used — ADLs, Mental Status Quotient Test — for organic brain syndrome or Alzheimer's disease?
Waiting Periods
How long does the participant need to wait prior to becoming eligible for benefits (e.g., 30, 60, 90 days)?
Premium Waivers
Are premiums waived upon being certified as "benefit eligible"?
Pre-existing Conditions
What restrictions apply to pre-existing conditions?
Are specific illnesses excluded?
Patient Care Coordination
Are managed care or elder care information and referral services available?
Is it required or optional?
Increasing Coverage
When and how do employees increase benefit coverage to protect against inflation or provide greater coverage?
How are the revised premiums calculated?
Is medical underwriting necessary?
Other Plan Design Options
Are either nonforfeiture of benefits or death benefits options available?
Are pre-payment options available?

financial planning and shift some responsibility for employee benefits from the employer to the employee. Sponsors and non-sponsors agree, long term care liabilities can eliminate most employees' pensions and personal estates, in some cases leaving the surviving spouses in financial distress. Long term care insurance in these situations is a form of asset protection.

For example, many retirees find that their annual retirement income cannot support $20,000 to $60,000 a year for institutional long term care services. Some stud-

Table 3: Designing and Administering a Long Term Care Benefit Plan
A Framework for Decision-Making (continued)


PLAN ADMINISTRATION
Premiums
Will the plan include employer contributions or be employee-pay-all?
Can employees use pre-tax dollars, major medical spending accounts, or flexible benefits to pay for any part of their premiums?
Is the same premium schedule used for employees and all other eligibles?
Premium Payments
What groups, if any, are eligible for payroll deductions?
Portability
Can participants continue with the plan if they terminate employment with the sponsor?
Plan Reserves
How are reserves valued, or is the plan fully insured?
When can the sponsor terminate the plan or change carriers?
Plan Complexity
Have the number of plan options made the plan too complex to communicate or administer?

ies suggest that over 55 percent of all individuals "spin down" personal assets, becoming welfare and Medicaid eligible within six months of entering a nursing home. Within one year, the percentage increases to 74, and between one to two years 95 percent of all nursing home residents have depleted personal resources.[3]

Assist employees with elder care. Long term care insurance is identified implicitly or explicitly as a need in corporate studies looking at elder care issues. At American Express Travel Related Services, where the work force is primarily women, employee focus groups indicated that care for a dependent elderly relative by a working caregiver, though not an immediate concern, is a potential threat to productivity. American Express managers inferred long term care insurance was one possible benefit that could help employees stay in the work force and still fulfill their elder care responsibilities.

At IBM, a strategic planning study identified long term care as one piece of their corporation's integrated work-family initiative. "While information and referral services are important," noted one senior manager, "we still needed a benefit that might help employees pay for their immediate and future elder care responsibilities."

Designing a Long Term Care Benefit

Carriers and companies suggest corporate-sponsored long term care requires significant preparation time because it involves considerations different from other benefits. Companies that have successfully launched long term care plans have undergone three sets of activities: self-education about long term care; selecting a vendor; and tailoring a long term care product to the employer's demographics and benefit package. (See Table 3 for questions that can help guide the design of a long term care plan.)

Understanding the differences between long term care and other benefits. As a corporate-sponsored benefit, long term care differs from most other traditional members of the benefit package. Depending upon the final plan design, long term care insurance can provide assistance for a variety of situations. As a health benefit, long term care pays for services not covered by traditional acute care policies. Like disability policies, it provides income when one can no longer work. Since most consumers of long term care receive benefits during their retirement, it can be likened to some deferred income benefits.

Unlike medical insurance, benefits that cover active employees and their immediate family, long term care plans can cover populations not traditionally targeted by employee benefits. Plans can include parents, in-laws and grandparents.

Selecting a vendor. Early plan sponsors, for example, Procter & Gamble and American Express, had only a few insurance products to evaluate. Today, the marketplace is changing rapidly, and vendor selection requires a careful look at subtle differences among products.

For some companies selecting a vendor also includes choosing a carrier whose corporate culture and approach to benefit design and administration complements the plan sponsor. Relevant factors range from developing a communication strategy and enrollment process conso-

[3] Brian O. Burwell, E. Kathleen Adams and Mark Meiners, "Spend-Down of Assets before Medicaid Eligibility among Nursing Home Recipients in Michigan," *Medical Care*, April 1990, pp. 349-362.

nant with the plan sponsor's culture to ensuring that the participants eligible for benefits receive them easily. As a benefits manager from Motorola points out, "We are concerned that the carrier be neither too stringent nor too liberal in the payment of benefits to eligible plan participants."

Because of the purpose and nature of the benefit, several companies suggest that choosing a long term care carrier also implies a long term carrier-sponsor relationship, further complicating the selection process. One sponsor says, "Our plan is designed for the long haul; it's for active employees and their spouses who are not likely to utilize the benefits for 20 to 30 years." During this period, the premiums will accrue into a tremendous build-up of reserves.

While all sponsors do review the plan administration and carrier performance, not all companies have negotiated the specifics by which the carrier will value reserves if the sponsor decides to change carriers. One plan sponsor is now finding this to be a potential stumbling block; three other companies who have or are in the process of implementing plans emphasize the importance of "good faith" on the part of both parties, and some agreement—at least in principle—as to parameters by which the reserves will be valued. One sponsor reports, "We have built in a number of provisions, but it was the hardest and lengthiest part of the entire [design and implementation] process."

Most plan sponsors engage outside brokers or consultants to assist in identifying potential carriers, designing, developing requests for proposals (RFPs), producing employee communications, reviewing proposals, and assisting in vendor selection. Consultants who are truly knowledgeable about long term care are described by several plan sponsors as a "tremendous asset; they move the process." However, since group long term care is a new benefit and is significantly different from other health-related benefits, not all benefit consultants can add value to the decision-making process.

Customizing a long term care product. The design for a company's long term care plan is shaped by work force demographics, objectives for plan sponsorship, and options available when the carrier-sponsor contract is signed.

Several companies in this study describe trade-offs in the design process. For one company considering plan sponsorship, "the greatest concern is designing a plan that will not become antiquated." Companies are also concerned that too many options make premiums too costly, and the plan too difficult to communicate or too unwieldy to administrate. One plan sponsor realized his company's "simple" plan with three benefit levels and an inflation protection option was really six plans, and under certain conditions—like phasing out a lower level benefit and introducing a new higher level benefit—could become 12 or 15 plans in under 10 years.

Though liability does not appear to be a major concern, one sponsor raised the question of whether plan sponsorship in any way might imply a formal endorsement of the plan, leaving the employer open to a lawsuit. "Today, malpractice is big business," notes one sponsor. "While the chance is slight, I sometimes wonder if we might find ourselves considered liable for something we never could have anticipated."

Differences and Similarities in Corporate Plans

Among plans studied for this report, eligible participants are defined as employees and their spouses, parents, and in-laws. Retirees and their spouses are also eligible, with the exception of the CBS plan in which retiree health benefits plans are being revised (see Table 4).

Long term care services covered by each plan include nursing home, home health, and adult day care. The American Express plan also includes carrier-provided elder care referral services, while respite care is a plan feature of the IBM and CBS plans.

With the exception of American Express and First Interstate BanCorp, where criteria for benefit eligibility is certification by a health care provider or copies of bills submitted by a nursing home facility, all other plans use ADLs to determine benefit eligibility.

Enrollments range from a low of 2 percent to a high of 15 percent. All of the plans, except for IBM, are employee-pay-all. (See pages 32-33 for a description of IBM's approach to employer contributions.)

The number of benefit levels allowed for by each of the plans varies among sponsors. IBM and CBS offer three benefit levels while American Express and First Interstate BanCorp offer two options. Procter & Gamble offers a single plan. The maximum daily benefit applies to nursing home care; benefits for home health and adult day care are 50 percent of the nursing home benefit. The lifetime maximum benefit for each plan is a dollar amount; it ranges from 1,200 to 1,825 times the maximum daily benefit.

The waiting period for benefit eligibility also differs among plan sponsors. Four plans—Procter & Gamble, IBM, American Express, and First Interstate BanCorp—have a waiting period of 90 or 120 days from either being certified eligible or entry into a nursing home. In contrast, the waiting period for the CBS plan is defined by the types of long term care services provided.

There is considerable variability as to the period of time which defines a pre-existing condition and the impact of a pre-existing condition upon receiving benefits. The time limit on pre-existing conditions or medical treatment received by a plan member ranges from three months to one year prior to enrolling in a long term care plan. In some plans, treatment for a pre-existing condition during the plans' waiting period can preclude any future receipt of benefits. Premium waivers range from

Table 4: Examples of Employer-Sponsored Long Term Care Plans

	American Express	*Procter & Gamble*	*First Interstate Bank*	*IBM*	*CBS*
Year Plan Initiated	1987	1988	1989	1990	1991
No. of Eligible Employees	30,000	48,000	32,500	200,000	6,000
Participation Rates	7%.[1] Average age: 35 yrs.	15%. Average age for employees and spouses: 40 yrs.	2%.[1] Average age: 37 yrs.	8%. Average employee age: 44 yrs.	NA[2]
Eligible Groups	– Employees, retirees and spouses – Employee parents and in-laws Employee/spousal enrollment not required for parental/in-law coverage. Medical underwriting required for retirees, parents and in-laws.	– Employees, retirees and spouses – Employee parents and in-laws Employee enrollment required for spousal eligibility. Parent eligibility contingent upon employee enrollment; employee's spouse must enroll for in-law eligibility. All eligibles must demonstrate good health.	– Employees, retirees and spouses – Employee parents and in-laws – Retirees and retiree spouses	– Employees, retirees and spouses – Employee parents and in-laws Employees: guarantee issue for all benefit levels during enrollment. Spouses guarantee issue for $50 or $100 benefit. Spouses desiring $150 benefit and all other groups must complete medical questionnaire.	– Employees and spouses – Employee parents and in-laws – Employee grandparents
Employer/ Employee Contributions	Employee-pay-all	Employee-pay-all	Employee-pay-all	Limited employer contribution through IBM Personal Health Assistance Plans	Employee-pay-all

[1] Participation rates represent total number of plan participants (e.g., employees, spouses, parents, retirees) in relation to total number of active eligibles.
[2] Enrollment data were being compiled and therefore not available.

Table 4: Examples of Employer-Sponsored Long Term Care Plans (continued)

	American Express	*Procter & Gamble*	*First Interstate Bank*	*IBM*	*CBS*
Covered Services	– Nursing home – Home health care – Adult day care –Elder care referral services	– Nursing home – Home care unit – Adult day care – Respite care	– Nursing home – Home health care – Adult day care – Elder care referral services	– Nursing home – Home health care – Adult day care – Respite care	– Nursing home – Home health care – Adult day care – Respite care
Daily Benefit Options:					
Nursing Care	$50/day $100/day	$60/day	$50/day $100/day	$50/day $100/day $150/day	$60/day $90/day $120/day
Home Health Care	25/day 50/day	30/day	25/day 50/day	25/day 50/day 75/day	30/day 45/day 60/day
Adult Day Care	25/day 50/day	30/day	25/day 50/day	25/day 50/day 75/day	30/day 45/day 60/day
Respite Care	NA NA	30/day	NA NA	50% of Daily Maximum Benefit up to 20 x DMB	14 days per year at purchased DMB
Lifetime Maximum	$75,000 $150,000	$109,500	$75,000 $150,000	$95,000 $185,000 $275,000	$120,000 $180,000 $240,000
Eligibility Criteria	Written recommendation and considered medically necessary by licensed physician.	Two of five Activities of Daily Living (ADLs).	Verification in writing by physician or copies of bills from long term care facility.	Two of five ADLs.	Two of five ADLs and medical certification for organic diseases.
Reimbursement Criteria	Benefits not offset by any other plan; covered claimants receive actual daily benefit irrespective of actual cost incurred.	Reimbursement at Daily Maximum Benefit (DMB) level, irrespective of the number of services received daily.	Reimbursement to the DMB level as provided by a licensed provider.	Payment of actual charges up to the selected DMB for services provided by licensed vendor.	Reimbursed to DMB for services provided by licensed vendor. *Exception:* respite care requiring 6 months assistance by an informal caregiver.

Table 4: Examples of Employer-Sponsored Long Term Care Plans (continued)

	American Express	*Procter & Gamble*	*First Interstate Bank*	*IBM*	*CBS*
Premium Waiver	120 days covered services in a nursing home; home health and adult day care.	90 days from certification; 90 days from certified loss of functional capacity.	120 days of nursing home, home health care, and/or adult day care. 90 days of Qualifying Services.[3]	During benefit period.	90 times the DMB amount.
Waiting Periods	90 days of qualifying services.	Medical condition diagnosed or treated 90 days before effective date of coverage.	Medical care for an injury within a six-month period of effective date of coverage.	Upon certification, 120 days of qualified expenses.	60 days of nursing home care. 15 days of home health and adult day care.
Pre-existing Conditions	Treatment for illness within 6 months of effective date constitutes a pre-existing condition. Pre-existing condition resulting in home health or adult day care will preclude reimbursement within 6 months of coverage and does not count toward 90-day qualifying period.	Treatment of pre-existing condition within 6 months of effective date is not covered.	Treatment for pre-existing condition within 6 months can exclude any future eligibility. Treatment for pre-existing condition after 6 months of effective date is covered.	Treatment or medical advice in 6 months preceding effective coverage date defines pre-existing condition. Coverage is delayed by 6 months from the effective date for a pre-existing condition.	Treatment or advice within 12-month period prior to coverage determines pre-existing condition. Treatment of pre-existing condition after 12 months is covered.
Other Features	With medical certification, covered individual can increase coverage.	Return of Contribution for all participants. Nonforfeiture of benefit.	Nonforfeiture of benefit. With medical certification, participants can increase coverage.	Inflation adjustment option. Nonforfeiture of benefit.	Inflation protection option for parents, in-laws, and grandparents.

[3] Qualifying services include any combination of nursing care, home health or adult day care. Services do not have to occur on consecutive days.

80 to 120 days. Salient characteristics of each plan are highlighted in Table 4. Because of rapid changes within the industry, some early plan sponsors are reevaluating benefit levels, types of benefits provided, premium costs, and administration.

The Cost of Premiums

"Premiums today are something like a crap shoot," says one benefits executive. "The insurance industry is pricing out a product for which there is no actual history." Employer concern about correctly pricing insurance premiums is echoed by carriers. If the initial premiums are too low, leading to significant increases in the near future, there is likely to be an adverse impact upon participation rates and employee relations. However, if the initial premiums are too high, the prohibitive costs will depress participation among eligible employees and their families. Employees will perceive an imbalance between premium cost and potential long term value. Since employee participation rates for all plans are low, hovering in the 8 to 10 percent range, correctly pricing the premium is critical to a successful program.

Employer-sponsored plans, in contrast to long term policies marketed through individual insurance agents or trade associations, generally offer better value. Employer group plans usually offer more features and greater assurance of coverage. Employers who do not point out these differences when educating and promoting the plan to employees appear to be missing an excellent education and marketing opportunity. Coverage of long term care in the popular press raises many employee questions and concerns about plan comparability. Procter & Gamble's high participation rate is partially attributed to enrollment materials that contained explicit cost and coverage comparisons between the company's long term care plan and three other plans.

A number of factors affect the premium cost. In general, the older the participant, the greater the premium. Larger employer groups tend to have more potential participants, which lowers costs. Premiums also vary as a function of the benefit levels and number of options—such as return of contribution or inflation adjustment—allowed under the plan. For some carriers, the employee/spouse premium schedule differs from rates for an employee's parents and in-laws and for retirees and their spouses. As one might expect, the more options, the greater the cost. However, not all design features and options have equal impact upon premiums. Because of this variability, comparing plan premiums is difficult (see box on page 27).

Administering a Long Term Care Plan

Rolling-out and developing administrative procedures for a long term care benefit require as much attention as the selection of a vendor and plan design.

Introducing long term care. Employers agree that introducing an employer-sponsored long term care benefit requires significant planning. For example, one *Fortune*-100 company's experience suggests that their high penetration levels stem primarily from an effective first enrollment campaign. When employees were offered a second open enrollment period, the participation rate increased by only 2 percent. "If eligible employees do not elect coverage during that first enrollment, you've lost them. Participation at a later time is unlikely," states the benefits manager. Further, this company found that when a parent, spouse or in-law was denied coverage there was a reasonable chance the eligible employee would also drop coverage, apparently for emotional rather than financial reasons.

It is also important to select a time when employees are not grappling with other significant changes in benefit design or increased premiums. One company's low participation rates were attributed to the introduction of a long term care option concurrent with a major redesign in the health care benefits that introduced managed care and increased employee premiums. Focus groups held after the implementation revealed that employees did not fully understand the benefit and distrust of management's intent for plan sponsorship. Employees also expressed concern about affordability of another benefit given the increases in health care premiums.

At CBS, since management had decided to reevaluate existing retiree health benefit plans, the company postponed offering its long term care plan to retirees. CBS' goal is to ensure that retirees understand the new health plan before introducing the long term care option.

Long term care in a flexible benefit environment. At Procter & Gamble, managers attributed the ease of enrollment and administration to employee familiarity with a flexible benefits plan, which enabled them to make informed choices about their benefits. "By allowing employees to make some additional choices," explains a senior manager from Merck & Co., Inc., "long term care turned out to be icing on the cake." BankAmerica is adopting a similar approach; they will be rolling out their long term care benefit as part of their transition to a flexible benefits plan and an option for employees who want a full range of coverage. BankAmerica views long term care insurance as a natural fit with the full range of benefits included in their cafeteria plan.

Maximizing Enrollment—Educating Employees

The decision to purchase long term care insurance is based heavily upon the employee's understanding of the benefit or some personal experiences of the value of long term care. Both IBM and Procter & Gamble believe that their comprehensive education campaigns contributed strongly to high enrollment rates. For IBM,

Variability in Premiums for Long Term Care

Premiums are a function of basic design features, such as waiting periods, as well as plan options like inflation protection or return of contribution. Each of these options has a differential impact upon a base premium. Further, the range of premiums for long term care insurance increases rapidly as a function of the participant's age and the maximum benefit level provided by the plan.

For example, Table A shows how a 30 year old might pay between $65 and $85 per year for a $50-a-day benefit; the range between high and low coverage premiums is only $20 per year. In contrast, a 45-year-old employee might find the annual premium ranging $340 to $470 per year, with a $130 spread between minimum and maximum coverage.

Table B points out the impact of two different plan options—return of contribution or time earned benefit—upon a fixed $100-a-day benefit for three different aged participants. It appears the return of contribution feature is generally a less costly option than time earned benefits. Further, the impact of time earned benefits is greatest for younger employees. In other words, a younger plan participant pays more for this latter benefit than does a middle aged or older plan participant.

Table A: Range of Monthly Premiums for Different Plan Sponsors[1]

Enrollment Age	*$50-a-day Benefit*	*$100-a-day Benefit*	*$150-a-day Benefit*
30	$65–85	$105–170	$145–260
45	115–170	230–315	340–470
60	370–525	715–1,050	1,060–1,520

Table B: Impact of Return of Contribution and Time Earned Options Upon Monthly Premiums

		Return of Contribution		*Time Earned Benefits*	
Enrollment Age	*$100-a-day Benefit*[2]	*Premium*	*Percentage Increase*	*Premium*	*Percentage Increase*
30	$109	$123	12.4%	$206	68.0%
45	272	311	14.4	470	51.2
60	727	791	8.8	799	9.9

[1] These ranges were calculated as averages of several different employer plans. There was no attempt to control for any design features or plan options.
[2] These figures do not represent one specific plan. They are caluculated as a percent increase on several comparable "plain vanilla" plans without special options.

the purpose of their campaign was explicitly bifocal: educating employees about why they should be concerned about long term care and showing how the IBM plan could help employees protect themselves and their families against the costs of long term care.

Corporate culture determines the level of the involvement in the development and implementation of the employee education campaign. At American Express, there was extensive corporate involvement in the design and distribution of employee education and marketing materials, because, according to the manager of employee benefits planning, "It is our culture to take an active role in the design and communication of employee benefit plans." At another company, with the approval and input of the benefits planning and communications staff, the carrier assumed responsibility for developing employee education materials.

Carriers and employers concur: extensive employee education is key to successful enrollment. Education and marketing materials can take many forms and include the following:

- *Booklets and targeted written materials.* Separate booklets discussing long term care can be used to complement standardized Summary Plan Descriptions (SPD). These booklets discuss what the benefit is, and why long term care insurance might be a valuable benefit to different eligible groups.
- *Videotapes.* Several companies, like IBM, have developed company-specific videotapes for employee use on their home videocassette recorders and to share with parents, in-laws, and other eligible family members.
- *Group discussions.* Most employers hold group discussions with eligible employees. At these meetings the purposes of the benefit are described. The relationship of long term care to other employee benefits and how long term care insurance fits into an employee's personal benefit plans are also explained. Discussion group leaders usually include representatives of the

benefits department and the carrier's long term care division.

- *Toll-free "800" telephone number.* Most carriers provide employees and other potential plan participants with a toll-free phone number to reach trained carrier representatives who are able to answer specific questions about the plan design, eligibility, benefit levels and plan features.
- *Personalized letters from the CEO or senior human resource manager.* At CBS, personalized letters describing the availability of this new benefit were an important method of educating employees and their families—including parents and in-laws—about long term care. Some companies send the letter to an employee's home; others mail it to an office address.
- *Kiosks and audiovisual monitors.* Several companies utilize kiosks and internal television systems to publicize their long term care plans. These visuals keep employees aware of the benefit and remind employees where they can get further information.

The corporate "champion." Often an internal champion is responsible for stimulating senior management's interest and support and focusing attention on long term care as an employee benefit. In some cases it is a senior manager whose commitment stems from personal experience with a family member. At Air Products and Chemicals, Inc., the champion is a senior manager who had personal experience with a family member requiring long term care assistance. At Motorola, the champion's interest in corporate-sponsored long term care stems from her previous training in aging and social work together with her current responsibilities as a benefits manager. For this manager, it seems "logical that our understanding of benefits could make a difference. We could help employees plan for their future benefits needs."

Servicing the client: claims and employee lapses. Because most of the programs are relatively new, data on claims experience and lapses are limited. In fact, one of the oldest plans had only two claims in 1990. Another early plan sponsor reports that claims are, "less than a handful since we implemented the plan." The manager goes on to state, "We implemented our plan to help employees over the long haul; we really don't want a lot of early claims. This lag time also helps the carriers who need to refine and make sure their systems—like reviewing claims, assessing eligibility and paying benefits—are in place. So, in 15 or 20 years, when the claims really begin to come in, everything is fine-tuned."

Lapses are not reported as a major issue by either sponsors or carriers. Once employees enroll, they generally remain plan participants, especially when premiums are paid through a payroll deduction system. The only exception, reports one company, "were a couple of employees who misunderstood the benefit. They dropped out because they thought it was long term disability insurance."

Lapse data for individuals like former employees, divorced spouses, parents, in-laws and other dependents billed directly by the carrier are less clear since the employer is not directly involved and does not collect data. Two carriers express concern about lapses and report that they are beginning to look at the data among those individuals who are billed directly. One carrier states, "Our sense is that economic hardship is a primary reason for people dropping coverage. If you've been laid off, long term care insurance may seem like a luxury item." Other reasons suggested by industry experts are death of a plan participant or the opportunity to join a new plan with lower premiums or a broader range of benefits.

While there are significant differences in plan design—suggesting that no one plan meets all sponsors' needs—each of the interviewed employers believes that implementing a long term care benefit was a correct business decision and is meeting a definite employee need. Most are reasonably certain their plans will continue to be refined during the coming years as a result of their evolving corporate environments, the product itself, and government involvement in the benefits and health care arena.

The Future of Corporate Long Term Care

"We are proud of our long term care plan...and we believe it is of value to our employees. Only a few companies have made the same kind of commitment. While we don't mind being out there, it would be nice to have some others in this boat with us."

—senior vice president, a Fortune-100 company

Despite uncertainties in the legislative and underwriting environments, many benefit executives believe employer-sponsored plans can play a significant role in meeting the needs of an aging population and an increasingly diverse work force which includes older workers. "If what has happened during the '80s, and so far in the '90s, is indicative," points out a senior benefit executive, "we will likely spend in excess of 20 percent of our lives in retirement. We are going to live longer and a great many of us will require some kind of long term care."

Long term care is also compatible with current benefit planning and administration trends, which are shifting responsibility for personal benefit planning from the employer to the employee. "We can no longer maintain our old 'parental' approach to benefits," points out one benefits executive, "It has to be a partnership between employee and employer." The same thinking is echoed by another benefit executive, "To help employees assume responsibility for their future, we need to be responsible for providing them with different benefit options and the information that gives them the ability to make appropriate choices."

For many benefits executives, adding employer-sponsored long term care to a traditional employee benefit package makes sense. One potential sponsor observes, "Long term care is a throwback to my early days in benefits. In those days we developed benefits to help protect employees against catastrophes." Even non-sponsors in this study were nearly unanimous in their view of long term care insurance as a benefit that cannot be ignored indefinitely. "It is going to be part of our strategic benefit plan," reports one company considering plan sponsorship.

Long term care complements traditional benefits in two ways: (1) It is insurance to pay for the cost of long term care services, be they in an institutional or community setting; and (2) long term care also helps individuals protect their pension and other assets which would be depleted without this insurance. Seen in a life-cycle context, long term care becomes a protective umbrella for traditional benefits across a lifetime. Chart 6 on page 30 provides a conceptual framework for understanding the relative importance of long term care insurance across an employee's worklife.

The future of long term care, however, must be viewed in relation to social, medical and government policy. "We don't have it packaged well," explains one benefits executive. "It is not just long term care, it's the whole medical and retirement thing." This sentiment is reinforced by another senior manager who notes, "Long term care shows us the failings of our retirement policies. But it is not just American business that has failed; it is also the government and our employees."

For the potential of corporate-sponsored long term care to be realized, the insurance industry and government must assume specific responsibilities to facilitate plan enrollment by employees and their eligible family members.

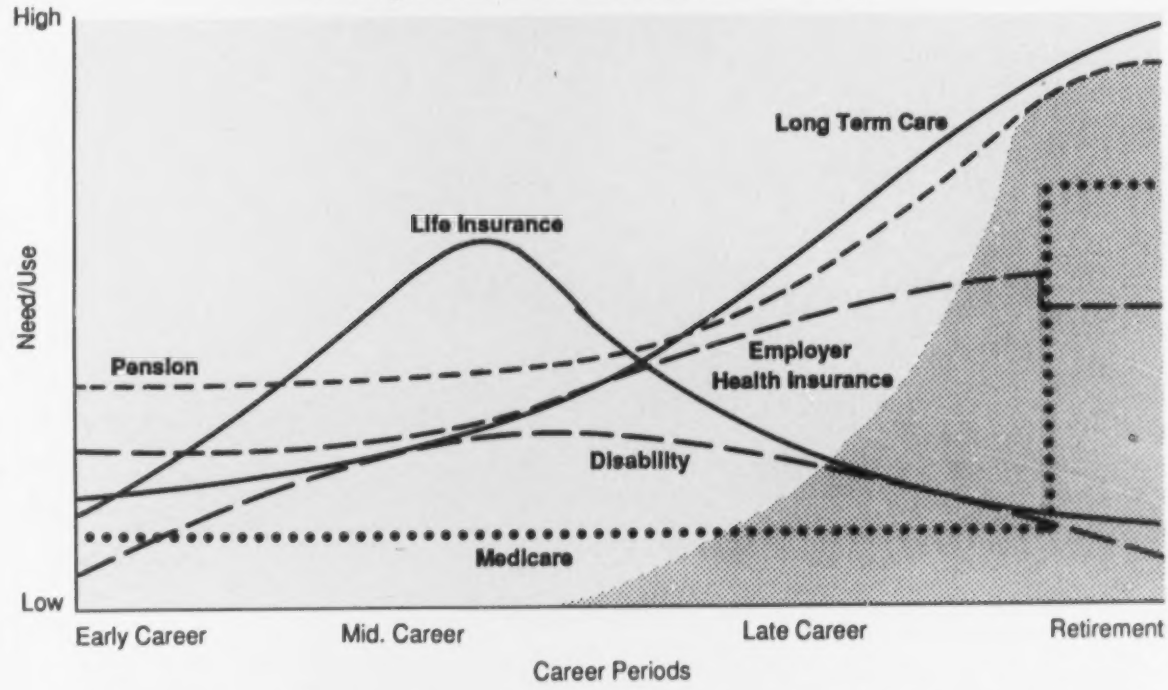
Roles for Employers

Irrespective of a company's approach to benefits, current and potential plan sponsors identify a three-part role in developing successful long term care plans: (1) educating employees about the need for long term care insurance; (2) being the architects of cost-effective plans that ensure employee enrollment; and (3) providing a model to other employers and the public.

The employer as educator. For many plan sponsors, the primary challenge is getting employees to assume responsibility for their own future. "If nothing else," notes one senior executive, "we need to initiate the thought process. As benefits managers, we must get employees to recognize that they are ultimately respon-

Chart 6

Life-Cycle Need for Benefit Coverage*



* This chart is a hypothetical representation of needing/utilizing different health and welfare benefits across a life span. The shaded section suggests how long term care provides an indirect benefit protecting pension and other assets in late life.

sible for their future long term care needs. Like other types of savings, it must begin early, while they are young and actively employed."

The low enrollment figures suggest that selling employees, especially younger groups, on the need for long term care insurance is difficult. "Younger employees think they are immortal," according to one *Fortune*-100 company: "Like 401(k) pension plans and long term disability, it's a hard sell. You can't strong-arm employees into buying an optional coverage."

Designing plans to promote participation. Long term care plans need to be consonant with the sponsor's overall approach to benefits. Plans also need to be seen as affordable and containing provisions that are valuable to a broad spectrum of employees at different ages and income levels. Since most plans are offered to retirees and employees' parents, plans should have features valuable to these other groups as well. However, inflation protection, nonforfeiture, paid-up premiums, and similar options can rapidly increase premium costs and complicate plan administration. The challenge is to balance attractive design options with reasonable costs.

Employers concur that when a company sponsors a plan, it is the same as giving an implicit imprimatur or seal of approval. Corporate sponsorship implies company endorsement of the plan and the concept of long term care. In some cases, this may also imply that the employee is getting better value by purchasing coverage through their employer. One company currently evaluating a number of different plan designs notes, "Our technical expertise enables us to come up with a plan design we can support, implicitly and explicitly."

Several companies believe corporate sponsorship, in conjunction with appropriate communications, will ensure employee participation. For example, one plan sponsor's strategy is to "get our foot in the door with younger employees by making a less expensive plan option available." Over time, the sponsor believes employees will upgrade their coverage on their own as they come to understand and value the benefit.

Other companies assume a more aggressive role by making employee and spouse enrollment a prerequisite for covering parents. As one sponsor suggests, "By forcing employees to be covered before we insure their parents, our goals were not only to increase the penetration levels, but hopefully to help younger individuals recognize why they need this insurance coverage and get them into the habit of covering themselves."

Impact on national and business policy. "It is naive for us to think we can solve all long term care problems," points out one *Fortune*-500 executive, "But I think by assisting our employees and their families, we are somehow helping the government reconstruct the safety net." In essence, companies are suggesting that corporate sponsorship could be one component of a broader national policy. By meeting the potential long term care needs of their employee population, companies allow the government to focus on the needs of other groups with fewer resources.

Sponsors also believe their response will help create a demand and provide creative solutions to the long term care problem. "By offering and publicizing our long term care benefit, we know we stimulate interest," notes one *Fortune*-100 employer. "And there are spin-offs. Our education campaign raised the awareness of non-employees; it also stimulated interest in long term care benefits among our colleagues at other companies."

In addition to improving public awareness, several sponsors believe corporate plans result in innovative programs that shape business and social policy. "By using our technical skills and working with the insurance industry, we are indirectly impacting social policy," states a *Fortune*-100 employer. "Creative employer-sponsored products offer new and different approaches that can be adopted by other companies or sold through individual agents or associations."

Roles for the Insurance Industry

Long term care as an insurance product is in its infancy. Carriers report they have and continue to invest considerable resources to keep their long term care products current and priced competitively. However, the industry is under scrutiny. There is skepticism about the industry itself, its practices and the financial viability of some carriers. As one major employer points out, "We know they are in there to make a profit—and that is okay—but we also know they are going to protect their own interests if something goes wrong." The success of corporate plans will require the insurance industry to ensure affordable pricing, demonstrate a commitment to their long term care products, and create more products and options tailored to the employer group market.

Creative pricing. Pricing premiums is one of the greatest concerns expressed by all groups. "I am not sure the carriers have correctly priced this product," suggests one recent sponsor. "We have built in some protection, but it is hard to know how premiums will change." "One of the greatest difficulties," notes one carrier, "is ensuring premiums are affordable while I keep my product competitive, service clients, and develop new products. I also need to show that our long term care product will be profitable." In essence, it appears that the future price of long term care insurance will be a function of the evolution of the product, the purchaser of the insurance, the carriers' experiences, and what employers can negotiate.

Commitment to the product. The recent bankruptcies of several smaller insurance companies raise questions about the long term stability of the industry. In general, large employers do not see this as a barrier to sponsorship. Among recent sponsors and companies considering plan sponsorship, however, the trend is to spend increasing time reviewing the financials of potential carriers. "We needed to prove to ourselves that they will be here over the long haul," points out one plan sponsor.

Several employers indicate they are less fearful about a carrier filing for bankruptcy than about a carrier or industry-wide decision to discontinue long term care products because the product is seen as neither profitable nor viable due to low participation rates. One way carriers can demonstrate their ongoing commitment to the product is by investing in their products and developing options that will attract increasing numbers of employees and their families.

Some companies suggest carriers need to manage plan costs (and premiums) judiciously while concurrently developing new plan options and design features. As one sponsors notes, "The [insurance] industry has a real balancing act. We are asking them to develop new services, provide open choice of providers, ensure quality, and prevent skyrocketing costs." Employers have several suggestions for new options:

- *Explore ways that enable living benefit riders to work with long term care benefits.* Living benefits, also called "accelerated death benefits," provide access to a life insurance policy while the person who purchased the policy is still alive (see box on page 32).
- *Determine alternative methods for paying benefits.* While most plans pay up to a maximum daily benefit, several sponsors suggest that the comprehensive approach to medical benefits be adapted to long term care insurance. For example, in lieu of a flat dollar amount of $100 a day for nursing home care, the insurance com- pany would pay $80 per day, and the beneficiary would be responsible for the remaining $20.
- *Design alternative payment schedules.* In addition to lifetime and nonforfeiture provisions, several corporations suggest the need for payment schedules to allow participants to pre-pay the entire plan, or, like Group Universal Life Programs, provide alternative payment schedules.
- *Provide for adequate inflation protection.* The lack of systematic strategies to manage health care inflation appears to be of greatest concern to most employers.

Living Benefit Riders

Living benefit policies or riders to life insurance products can be used as an alternative or in conjunction with long term care insurance. These riders provide policyholders access to or "an advance on" some part of their life insurance benefit. Currently, only a handful of companies are offering living benefit riders to group plans.

Living benefits help eligible individuals with terminal or serious health conditions pay for their medical bills, ease financial and emotional burdens, and preclude the chance of bankruptcy resulting in a reliance upon Medicaid or other government relief programs.

Living benefits can be used to pay for long term care services, but, unlike long term care insurance, living benefits may also be used to pay for medical services associated with terminal illnesses, like cancer or a catastrophic/dread disease, such as AIDS/HIV infection. The National Association of Insurance Commissioners requires eligibility for accelerated benefits based upon "qualifying events" that might include:

- **A terminal or health-related condition that drastically shortens life span (e.g., under 24 months).**
- **The need for a health treatment or procedure, like organ transplant, without which the insured individual would die or have a drastically reduced life expectancy.**
- **A condition requiring continuous institutional care for the duration of insured's life. These institutions might include a nursing home or hospice.**

Living benefits are a percent of the face amount of the policyholder's life insurance policy. The money, which can be received as a lump sum or in monthly payments, reduces the total value of the life insurance policy. For example, a terminal cancer patient who takes advantage of a living benefit rider on a $125,000 policy might receive 20 percent or $25,000, leaving a final policy of $100,000. This differs from long term care insurance which provides a maximum daily benefit to eligible participants. Like long term care, living benefit riders have raised several tax issues—like the tax status of received benefits—which have yet to be reconciled.

Lastly, several corporations identify the need for the insurance industry to learn from the current health care cost crisis and, as appropriate, aggressively apply managed care concepts to long term care. The insurance industry needs to explore ways long term care can be integrated with other retiree health insurance products. Says one executive, "In essence, [long term care] is a grey area. As people get older and when you start dealing with catastrophic illnesses and degenerating capabilities, there is a point when it is hard to distinguish what is custodial and what is medical." Thus, there is a need to ensure there are no unintentional incentives to diagnose long term care services as acute care services, or vice versa.

Regulatory issues. Members of the insurance industry assert that long term care products are constrained by regulations geared to the individual rather than group market. These regulations limit the carrier's ability to develop group products tailored to an employer's requirements and specifications. "There has been more than one occasion where two states have different regulations," says one carrier. "For example, it was time consuming and costly when we had to negotiate a group plan when two different states had contradictory nonforfeiture regulations."

Because state regulations vary, decisions to upgrade group plans can make plans so complex that they become administratively unwieldy and difficult to communicate to participants. One sponsor found that variations in state regulations would result in disparate premium increases for plan members including, in some cases, unequal premium increases for two same-aged employees who entered the plan at the same time.

The Long Term Care Task Force of the Health Insurance Association of America has recently presented a series of recommendations to the National Association of Insurance Commissioners. If approved, the recommendations will facilitate the design and administration of employer group long term care plans (see box on page 33).

Roles for Government

From the vantage point of employers and carriers, the government's role should reflect its limitations with respect to long term care and facilitate the growth of private long term care insurance. "I truly believe we can do a better job with some parts of long term care than the government," notes one *Fortune*-500 company. States another benefits executive, "Given the federal deficit, recession, the crisis in our health care systems, and the reality of a global marketplace, it frightens me to think that 100 U.S. Senators can dictate what business should be doing." Employers and insurers believe that before corporate-sponsored long term care can succeed the government needs to clarify current tax law, help educate consumers, and signal its intent with respect to public policy.

Clarify tax laws. To date the federal government has not clarified the tax codes surrounding employer or employee contributions for long term care benefits. Employers say this continues to impede their decision-making on the best methods to design, administer and upgrade their plans.

Despite the lack of clarification, IBM has enabled employees, retirees and their spouses to be reimbursed

for a portion of the premiums they pay for coverage under the company's Long Term Care Insurance Program. IBM has taken this approach to demonstrate company commitment to the long term care program and to foster participation in the program. Reimbursements are available under a provision of the company's major medical plan. The reimbursement is no more than a specified percent of the long term care insurance benefits which, according to the carrier's conservative analysis, is attributable to medical expenses. IBM minimized the net additional cost to the company by subjecting these reimbursements to the same $500 overall annual maximum that already applied to plan reimbursements for various preventive health services and certain other medical expenses (e.g., eyeglasses).

Two other large employers—who declined to be cited for this study because the Department of the Treasury has not issued a ruling on the tax status of employee contributions—have taken an alternative approach. These companies allow employees to use pre-tax dollars to pay part of their premiums. The sentiment in the business community is clear: Until the government comes to a decision—in either direction—plan sponsorship will certainly be hindered.

Most sponsors and carriers believe giving a tax deduction or credit to plan participants and/or the sponsors will increase the number of plans and improve participation rates among employees and their families. They suggest several different approaches for structuring the deductions:

- *Allow employees to pay for all or part of their premiums on a pre-tax basis.* Employers have administrative vehicles, like health care spending accounts, through which employees could pay for long term care insurance premiums on a pre-tax basis.

- *Develop long term care Income Retirement Accounts (IRAs) and 401(k)s.* Long term care IRAs or 401(k)s are seen as alternatives to spending accounts. Through these plans, employees receive a tax credit for saving towards their long term care needs. Employers believe this is an effective vehicle for two reasons: 1) participants would see a tangible growth in their personal estate, and 2) employers, through 401(k)s, could provide a match for participation. It might also stimulate plans among smaller employers.

- *Provide tax deductions to employers who contribute to long term care benefits.* Given escalating health care and benefit costs, most employers do not foresee paying for long term care premiums through "new" money. However, several believe the number of plan sponsors would likely increase if employers could receive a tax deduction for contributions through cafeteria plans or similar vehicles.

Recommendations for Employer Group Plans

Because there are distinct differences between group-sponsored and individual long term care markets, the Health Insurance Association of America's Task Force on Long Term Care has presented a series of recommendations to the National Association of Insurance Commissioners. The general purpose of these recommendations is to facilitate plan sponsorship by creating regulations that will govern conditions specific to the employer group marketplace. The task force report contains these recommendations:

- **Ensure that existing consumer protection provisions are revised to reflect the group market:** Existing disclosure requirements are geared to the individual insurance agent. The proposed regulations will simplify requirements that employees receive redundant materials, like those contained in Summary Plan Descriptions.

- **Allow employers to make design decisions:** By allowing employers to tailor plan features to company-specific requirements, this revision will help ensure that the plan design matches the company's demographics and dovetails with other benefits. Additionally, it would make it easier to control premium costs and simplify plan administration.

- **Provide guidelines relating to continuation and conversion:** This would help plan sponsors keep their plans current and provide guidelines for changing carriers.

The government as educator. Irrespective of any decision on tax deductions, all interviewed companies believe government can increase public awareness about long term care and the need for individuals to protect themselves. Specifically, through public-funded research and education campaigns, similar to those for high blood pressure and AIDS, the government could stimulate interest among individuals. Through increased public awareness, participation in employer-sponsored plans would likely increase, thus lowering the overall costs to the public sector of uninsured Medicaid patients.

Defining government's position. Any discussion about government's role with respect to employer-sponsored long term care ultimately becomes embedded in the larger issue of American health care policy. While this debate raises complex and intertwined issues, there are several key areas where government could signal its intent to the business community concerning corporate-sponsored long term care. These areas include:

- *Evaluate the need for short term revenue versus long term costs.* The Government's current position emphasizes short term revenue to reduce the deficit; however, this may be shortsighted. Providing tax relief for employers and/or employees would likely increase the number of plan sponsors and participating employees, and provide a longer term solution to the projected costs for long term care.
- *Determine federal and state interests on long term care costs.* The cost of long term care falls heavily upon state governments, mostly through welfare programs and Medicaid. Therefore, there appears to be an apparent conflict in the needs of state and federal government, which ultimately impacts business and individuals through taxes.
- *Ensure that government initiatives do not penalize companies that sponsor long term care programs.* There is a fear that government's response to the long term care issue might be antagonistic to business. For example, it might include a new entitlement program, mandated long term care plans, or result in some other scenario—similar to the return of premium requirements of the repealed Medicare Catastrophic legislation—that penalizes employers who take the initiative to sponsor an employer plan.[4]

To balance public and private interests, several carriers and sponsors believe that a new amendment to the original Medicare legislation might prove beneficial to all affected groups including government, employers, carriers and employees. For example, a public plan could complement corporate long term care plans by meeting some deductibility requirements or increase benefits to plan participants.

Conclusion

Long term care as an issue affecting American business can only become more visible as the U.S. work force becomes increasingly diverse and the number of older Americans—working and retired—continues to grow. As a response to these trends, corporate-sponsored long term care insurance has emerged as a new benefit that is included in or under consideration for many benefit packages. Because it can help employees and their families create a personal safety net, the insurance industry and employers view long term care as a potentially invaluable benefit.

While the number of plan sponsors has increased rapidly, and in concept, employer-sponsored programs hold great promise, many employers are cautious about this new benefit. It is in the best interests of business and the public to increase the availability of long term care to employees and their families. However, employers, insurance carriers and government must work together, with each group assuming specific responsibilities, to make the product work. Employers who sponsor long term care plans are taking a leadership role; they are both protecting employee assets and helping to shape a United States long term care policy.

[4] The repealed Medicare Catastrophic legislation included a return of premium provision. Had the legislation been enacted, many plan sponsors would have been required to value that portion of their retiree health benefit plan paid for by Medicare and reimburse some portion of that amount to retiree plan participants.

Related Publications

Encouraging Employee Self-Management in Financial and Career Planning, Report No. 976, 1991

A Bottom-Line Perspective on Health Care Costs, Report No. 989, 1990

Implementing Managed Care, Report No. 968, 1991

Retirement Planning: Corporate Perspectives for 1990s, Perspectives No. 20, 1990

A Life Cycle Approach to Family Benefits and Policies, Perspectives No. 19, 1989

Health Care for Retired Employees, Research Bulletin No. 202, 1987

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